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C O N F I D E N T I A L SECTION 01 OF 04 BEIRUT 000994

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IO FOR A/S BRIMMER  
P FOR AWELLS/RWALLER  
DRL/NESA FOR JBARGHOUT  
STATE PASS TO USAID ESCOTT  
TREASURY FOR BBALIN AND CKNOWLES  
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PARIS FOR DNOBLES  
USUN FOR WOLFF/GERMAIN/SCHEDLBAUER  
NSC FOR SHAPIRO/MCDERMOTT  
OVP FOR HMUSTAFA

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TAGS: [ECON](#) [EFIN](#) [EIND](#) [ECPS](#) [PGOV](#) [KCOR](#) [LE](#)  
SUBJECT: CAN THE MAJORITY AND OPPOSITION COOPERATE ON  
ECONOMIC REFORM?

REF: A. A) BEIRUT 984  
[1](#)B. B) BEIRUT 966  
[1](#)C. C) BEIRUT 692  
[1](#)D. D) BEIRUT 222

Classified By: Ambassador Michele J. Sison for reasons  
1.4 (b) and (d).

SUMMARY

[1](#)1. (C) While Lebanon's political leaders share broad consensus about what economic reforms the country needs to undertake once a new government is formed, they differ on how to achieve them. Within the new parliamentary majority, Saad Hariri's Future Movement has a solid economic reform plan, though wayward Druze leader Walid Jumblatt has disagreed with parts of it and his Christian allies have shown little interest in or expertise on economic issues. Minority politicians indicate that they generally agree with Hariri's reform priorities, though there is concern his approach to reform will enrich him and his business associates rather than bring prosperity to Lebanon. Both sides' visions coincide to varying degrees with U.S. priorities for economic reform in Lebanon.

[1](#)2. (C) If both sides have similar objectives, the question is whether they can work together. While there is distrust on all sides, particularly given the acrimonious government formation process so far, there is a core group of legislators in parliament that has been able to collaborate across party lines somewhat successfully on reform initiatives. A similar core in the new cabinet could smooth the passage of key proposals. Some see the possibility of President Sleiman playing a role in forging such a core group and pushing for consensus on economic issues, reinforcing coordinated messaging from the donor community. End summary.

THE NEW MAJORITY: HARIRI'S ECON TEAM  
THE ONLY GAME IN TOWN

13. (C) The international community viewed the March 14 victory in the June 7 parliamentary elections as a sign that the new GOL could finally move forward on important economic reforms left unachieved after numerous donor conferences and much political upheaval. In reality, PM-designate Saad Hariri's Future Movement is the only majority party with a functioning economic team, which produced a comprehensive economic and social program before the elections. Future's March 14 Christian partners, Samir Geagea's Lebanese Forces and Amine Gemayel's Kataeb, have produced no concrete economic proposals, though it is assumed they would support Hariri in the cabinet and in parliament on his reform initiatives. For his part, Druze leader Walid Jumblatt, whose Progressive Socialist Party holds 12 of the 71 majority seats, has made statements highlighting his "socialist" roots, most notably a blanket rejection of the privatization of state assets.

14. (SBU) Mazen Hanna, Hariri's chief economic advisor, told the Ambassador August 25 that Hariri hoped to push the majority to focus on reform in six key areas during his prime ministerial mandate:

a. Electricity: Increasing generation capacity through government investment and/or partnership with the private sector, while making further improvements in transmission and distribution. Restructuring the state-owned utility Electricite du Liban (EDL).

b. Environment: Revamping Lebanon's ecological policy. Hanna offered no specifics, saying only that "the field is

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wide open."

c. Information and Communication Technology (ICT): Liberalizing the sector and preparing Lebanon to be a regional and international leader in ICT. Privatization of Lebanon's mobile licenses would be part of this, as well as creating the new corporate entity for fixed lines, Liban Telecom, from the current state-owned Ogero and parts of the Ministry of Telecom. Hariri also hopes to tap the Lebanese diaspora to encourage development of a software development industry.

d. Traffic Management: The tourist season has laid bare the limits of Lebanon's traffic infrastructure and Hanna said his team had learned that "more roads merely mean more traffic." While he offered no solutions, Hanna said the team was looking into it.

e. Assisting the Poor: Targeting Lebanon's poorest for assistance through cash payments or other mechanisms.

f. Improving the Business Environment: Hanna believed progress was easiest to achieve in this area and that Hariri's cabinet could easily implement measures to streamline business procedures.

OPPOSITION: BROAD AGREEMENT ON PRIORITIES,  
CONCERN ABOUT IMPLEMENTATION

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15. (C) Both Michel Aoun's Free Patriotic Movement (FPM) and Hizballah issued electoral programs covering economic and social issues (though the FPM's was far more comprehensive), and many of Hariri's key priorities above were included in those documents. The opposition programs call for increased electricity production and reform at EDL, environmental protection, assistance to the poor, particularly in rural areas, and improvement of the ICT sector. While they place less emphasis on privatization than Future does, they do not rule it out. (Comment: We exclude Nabih Berri's Amal party from this discussion because of Berri's inattention to economic issues and history of corruption. As the politically independent head of monetary operations at the

Central Bank of Lebanon, Youssef el-Khalil, told econoff, "Berri would be all for Hariri-style privatization. He could easily take a cut!" End comment.)

16. (SBU) In discussions with FPM and other opposition Christian figures, however, it is clear their top reform priorities involve making structural changes to streamline the Lebanese system and reduce corruption. Both the Hizballah and FPM programs highlight the need to create a development planning institution to replace the Council for Development and Reconstruction (ref D), and FPM figures have called for development projects to be represented in the budget. Both programs call for decentralization to devolve responsibility to the regions and municipalities. In an August 31 meeting with us, FPM MP Ibrahim Kanaan underscored the importance of reinvigorating government oversight bodies by placing them under the president's office.

17. (C) Opposition contacts explain their emphasis on tightening procedures and oversight in state institutions by referring to Saad's father, former PM Rafiq Hariri, who found creative ways to enrich himself and his associates during his push to rebuild Lebanon after the 15-year civil war. Richard Haykel, advisor to opposition Marada Party leader and MP Suleiman Franjieh, said Franjieh is in favor of reform initiatives, including privatization, as long as the young Hariri does not follow in his father's footsteps and sell all of Lebanon's assets to his business cronies in Beirut or Jeddah. (Comment: For the record, Franjieh himself reportedly found ways to enrich himself and his associates

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during the same period as minister of health or interior in various governments. End comment.) Independent FPM-allied MP Ghassan Mukheiber hoped privatization could happen gradually and include floating assets on the Beirut Stock Exchange to allow all Lebanese to participate, not just those with connections to the PM or others in the political class.

#### STATED GOALS MATCH USG PRIORITIES

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18. (C) Both the majority and opposition reform plans square with USG (ref C) and other international donors' economic reform priorities in Lebanon, though to varying degrees. Hariri's privatization plans mirror donor benchmarks in the telecom and electricity sector, while opposition demands for tying development spending to the budget and building effective oversight bodies are in line with the U.S. push for budget transparency. Opposition proposals on telecoms and electricity would prepare the sectors for privatization, though we would expect opposition politicians would scrutinize the structure of private sector participation carefully. Slightly worrisome was Hariri advisor Hanna's response to the Ambassador's query about budget transparency: "That's just an accounting issue. It's easy to fix." Such nonchalance deflects attention from the fact that the budget's opacity has been cultivated and exploited by Future Movement finance ministers and current PM Fouad Siniora.

#### BUT CAN THEY WORK TOGETHER?

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19. (C) Given that the cabinet (and often the parliament) will have to approve almost any reform initiative from a ministry, the PM's ability to build consensus -- and the opposition's willingness to help build it -- will be crucial to the success of reform in Lebanon. Early signs are mixed. Hanna scoffed at the idea of allowing the opposition to take ministerial portfolios in which Hariri had identified a reform priority. "We cannot work with the opposition on these issues," he declared. He complained that Future had seen too many reform initiatives blocked by its enemies for political reasons and could not afford to cede any control to the opposition. Opposition figures, particularly from the FPM, have complained bitterly that Hariri has not consulted

with them in the government formation process (ref B). FPM MP Kanaan says Hariri has not provided opposition parties any outline of his vision for Lebanon and the new government, nor has he invited them to participate in executing it.

¶10. (C) Despite tensions bred by the bitter government formation process (ref A), there is a history of multi-party cooperation on reform, particularly in the parliament. Numerous contacts both inside and outside political circles point to a core group of parliamentarians who collaborate regularly on legislative projects, and who muster the votes necessary to push through initiatives. From the majority, independent Christian MP Boutros Harb and Future MPs Samir Jisr and Bassam Shaab are part of this group, as are opposition-aligned Kanaan, Mukheiber, Amal-aligned independent Yassine Jaber, and Hizballah caretaker Minister of Labor Mohammed Fneish. If members of the new cabinet can get over the acrimony of the current political battles, a similar core could be forged in the Council of Ministers, perhaps with donor encouragement.

DONOR FRUSTRATION...  
PRESIDENTIAL PERSUASION?  
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¶11. (C) Representatives from the donor community in Beirut, many of whom have witnessed years of GOL inaction on reform, express frustration with the lack of economic literacy in Lebanon's political class and the subsequent ability of

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political squabbles to undermine reform. World Bank Country Director Demba Ba encouraged the Ambassador to counsel Hariri that it is possible to work with the opposition and share credit with its ministers, particularly given the similarity of the two sides' economic objectives. EU Delegation Charge Michael Miller pointed to the lack of basic understanding of the consequences of reform (or lack thereof) among Lebanese leaders and the need to educate and engage those who do understand. Salvatore Pedulla, Special Assistant to UNSCOL Michael Williams, believes a coordinated donor push to bring all sides together would be an essential driver of reform in Lebanon, and most of our donor contacts agree.

COMMENT  
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¶12. (C) Donors also hope that President Sleiman will be able to play a constructive role in pushing for consensus on issues of fundamental economic reform. Ba said the World Bank had encouraged the president to assemble a Council of Economic Advisors to educate him on the issues at hand and provide independent counsel to adjudicate between feuding parties. We support this idea and will make the same suggestion to Sleiman. Ultimately, however, in the Lebanese system it usually falls to the prime minister to forge the executive consensus necessary to achieve the economic reforms so desperately needed in Lebanon. We will continue to encourage Prime Minister-Designate to take on this leadership role.

SISON